

Introduction

When the Governor introduced his Budget on January 10, the State faced an extraordinary budget problem that exceeded estimates and grew to a record \$38 billion.

On February 3, the Legislature passed a package of bills to reduce current-year spending by \$3 billion. The package also clarified that the Director of Finance may revise the Vehicle License Fee (VLF) by \$4 billion during the relevant period. The package included:

- AB 10x Establishes an annual cap on Air Resources Board permit fees.
Chapter 1 – 3/18/03
- AB 11x Makes mid-year reductions in human services. Chapter 2 – 3/18/03
- SB 13x Modifies Basic Correctional Officers Training. Chapter 5 – 4/8/03
- SB 18x Reverts appropriations for Education. Chapter 4 – 3/18/03
- SB 19x Reverts numerous appropriations in the 2002-03 Budget Act.
Chapter 3 – 3/18/03

In May, the Legislature passed another package of bills; made further reductions; authorized a pension obligation bond and various other adjustments totaling \$1.8 billion. The package included Senate bills:

- SB 20x Decreases one payment to the Supplemental Benefit Maintenance Account of the
State Teachers Retirement System. Chapter 6 – 5/5/03
- SB 22x Makes changes in public financing. Chapter 12 – 6/2/03
- SB 24x Makes a series of changes to reduce state expenditures in social services –
Chapter 7 – 5/5/03
- SB 25x Makes General Fund reductions and places limits on supervisory training by CPOST
to the Department of Corrections. Chapter 8 – 5/5/03
- SB 26x Makes substantive changes to health care, primarily Medi-Cal. Chapter 9 – 5/5/03
- SB 28x Makes changes to the 2002-03 Budget Act to reduce Proposition 98 to the level
proposed in the Governor's January Budget. Chapter 10 – 5/5/03
- SB 29x Authorizes the issuance of pension obligation bonds to fund \$1.8 billion of 2003-04
retirement obligations to California PERS and STRS. Chapter 11 – 5/5/03

In July, the Legislature passed the 2003-04 Budget Bill (AB 1765, Chapter 157 – 8/2/03). Also passed in July, was AB 7x (Chapter 13 – 8/2/03) which enacts a temporary change to local and state sales taxes to provide a dedicated revenue stream to service the debt on the deficit reduction bond. Sometimes referred to as the “triple flip”.

2003-04 GENERAL FUND CONDITION

On June 30, 2002, the state ended its fiscal year with a deficit. The 2003 budget package along with the mid-year reductions made in the Special Session makes significant adjustments to address the state's ongoing budget shortfalls.

The budget assumes 2003-04 revenues of \$72.8 billion, expenditures of \$1.1 billion, and a year-end reserve of \$2 billion. It also assumes that a deficit-financing bond is issued to eliminate the \$10.7 billion year-end deficit.

The General Fund condition is summarized in the following table.

General Fund Condition

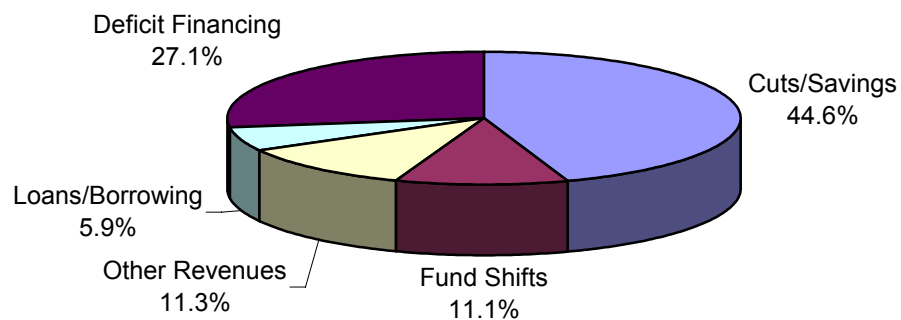
AB 1765 as Amended on July 26th, 2003

Dollars in Millions

	<u>2002-03</u>	<u>2003-04</u>
Prior-year fund balance	-1,983	1,402
Revenues and transfers	70,852	73,353
Deficit Financing Bond	<u>10,675</u>	<u>0</u>
Total resources available	79,544	74,755
Expenditures	<u>78,142</u>	<u>71,137</u>
Ending fund balance	1,402	3,618
Encumbrances	1,402	1,402
Reserve	0	1,995

2003-04 Budget Addressing the \$38.2 Billion Gap

(Dollars in Millions)



Description	Amount	Percentage
Cuts/Savings	\$17,589.5	44.6
Fund Shifts	4,357.0	11.1
Other Revenues	4,466.3	11.3
Loans/Borrowing	2,326.2	5.9
Deficit Financing	10,675.4	27.1
Total (greater than \$38.2 billion, due to increased reserve)	\$39,414.5	100.0%

Budget Package (“Trailer Bills”)

The list below details the budget package passed by the Legislature as part of the 2003 budget.

<u>Vehicle</u>	<u>Status</u>	<u>Author</u>	<u>Subject</u>
AB 296	Enrolled	Oropeza	State and local government
AB 1266	Enrolled	Oropeza	Education budget policy
AB 1485	Enrolled	Firebaugh	English Learners – Federal Reading First Funding
AB 1747	Chapter 240	Budget Cmte	Omnibus Natural Resources
AB 1748	Vetoed	Budget Cmte	Proposition 50
AB 1750	Chapter 223	Budget Cmte	Transportation – Partial Suspension of Prop 42
AB 1751	Chapter 224	Budget Cmte	Transportation – Prop 42 Expenditures and Repayment
AB 1752	Chapter 225	Budget Cmte	Omnibus Social Services
AB 1753	Chapter 226	Budget Cmte	Habilitation Services transfer to Dept. of Developmental Services
AB 1754	Chapter 227	Budget Cmte	Omnibus Education
AB 1755	Held in Senate	Budget Cmte	General Government cleanup
AB 1756	Chapter 228	Budget Cmte	Omnibus General Government
AB 1757	Chapter 229	Budget Cmte	Abolish Office of Criminal Justice Planning and Technology, Trade and Commerce Agency. Transfer some TTCA programs to other agencies
AB 1758	Chapter 158	Budget Cmte	Corrections
AB 1759	Chapter 159	Budget Cmte	Court Fees
AB 1762	Chapter 230	Budget Cmte	Omnibus Health
AB 1763	Chapter 161	Budget Cmte	Healthy Families Program: Rural Demonstration Project Funding
AB 1764	Held in Senate	Budget Cmte	Resources: fees
AB 1765	Chapter 157	Budget Cmte	2003-04 Budget Bill
AB 1766	Chapter 162	Budget Cmte	Property Tax Allocation to Cities and Counties
AB 1767	Held in Senate	Budget Cmte	Vehicles: fees: funding
AB 1768	Chapter 231	Budget Cmte	Provides commitment to reimburse cities and counties for VLF “gap” revenues in 2006
AB 1769	Held in Senate	Oropeza	General Government cleanup
SB 428	Enrolled	Perata	Adult day health care
SB 857	Enrolled	Speier	Medi-Cal: providers
SB 1040	Chapter 26	Budget Cmte	Targeted Instructional Improvement Grant Program: appropriation
SB 1049	Enrolled	Budget Cmte	Resources
SB 1055	Enrolled	Budget Cmte	Vehicles: Fees: funding
SB 1058	Enrolled	Torlakson	Instructional materials/Special Education